

GAO

Report to the Chairman, Subcommittee
on the Postal Service, Committee on
Government Reform and Oversight
House of Representatives

October 1996

U.S. POSTAL SERVICE

Revenue Losses From
Express Mail Accounts
Have Grown





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-262118

October 24, 1996

The Honorable John M. McHugh
Chairman, Subcommittee on the Postal Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

As you requested, we are reporting on the U.S. Postal Service's controls over Express Mail Corporate Accounts (EMCA). These accounts allow customers to deposit money with the Service for using as needed to pay for Express Mail delivery services. The Subcommittee requested this review because of its general concern about the Service's protection of postage revenue and because of an allegation that some customers obtained Express Mail services using bogus EMCAs that were not caught by the Service. As agreed with the Subcommittee, our objectives were to determine (1) whether there is any basis for the allegation regarding EMCA abuse and (2), if so, what steps the Service is taking and could take to help avoid or minimize EMCA revenue losses.

The Service first offered EMCAs in 1984 to provide a convenient way for customers to pay for Express Mail services and thereby help stem a decline in Express Mail business. Any individual or business can open an EMCA and receive an EMCA number to place on Express Mail packages by depositing as little as \$100 with the Postal Service. To maintain valid EMCAs, customers must keep at least \$50 in their accounts. Express Mail packages citing EMCA numbers can be handed to a clerk at any post office or dropped in specially marked collection boxes located on many streets. When a Service employee receives an Express Mail package at a post office or mail-processing plant, the employee is to (1) make sure the EMCA number is not on the Service's list of invalid numbers and (2) record data from the package so that it can be tracked by the Service and the customer can be charged for postage. A more detailed description of the Service's EMCA procedures is included in appendix I.

Results in Brief

As a result of our review, we found a basis for the allegation that some mailers obtained Express Mail services using invalid EMCAs and that the Service did not collect the postage due. In fiscal year 1995, the Service lost Express Mail revenue of about \$800,000—a 91-percent increase from fiscal year 1993—largely because the Service had not verified EMCAs, which it later determined were invalid. These losses occurred after Postal Service

employees spent a considerable amount of time trying to collect postage from EMCA customers who had obtained Express Mail services using invalid EMCAS.

The Service has few requirements for opening EMCAS and, when accepting Express Mail packages with EMCA numbers, employees did not always do the verifications required and also did not have access to EMCA data necessary to ensure that the numbers were valid. Contrary to Service policy, EMCA customers overdrawn their accounts and, in some cases, carried negative balances ranging up to \$10,000 for as long as 5 months. Further, the Service accepted and delivered some Express Mail packages without recording any data when it accepted the packages. In these instances, it could not accurately track and report the transactions and, in cases where EMCAS were used, did not collect the postage.

Postal Service officials said that they eventually plan to provide employees accepting Express Mail at post offices with automated access to valid EMCA numbers and fund balances, which could help reduce EMCA revenue losses. However, the date and cost of providing such access is yet to be determined. Also, the Service has no plans to provide similar access to employees who are responsible for verifying EMCA numbers at mail-processing plants. Postal Service officials said that EMCA problems occur more often at processing plants than post offices because of greater time pressures at the plants to move the mail. Recognizing EMCA control problems, Postal Service units recently began self-audits of EMCA operations, which could help to reduce EMCA revenue losses.

The Service's planned actions to improve controls over EMCA operations will take a considerable amount of time and money to complete. Further, even when completed, they will not have addressed several EMCA control weaknesses we identified, such as the lack of automated EMCA data access at processing plants. In light of the many EMCA control weaknesses requiring corrective action and various other factors—such as developments in the overnight delivery markets since EMCAS were first introduced in 1984 and the fact that the Service now offers other convenient methods (i.e., debit and credit cards) of paying postage—EMCAS may not be the most cost-effective way of offering Express Mail customers a way of paying postage. The Postal Service could evaluate the relative customer convenience, cost-effectiveness, and other relevant factors to determine whether EMCAS continue to be necessary or desirable. If EMCAS are continued, stronger requirements are needed; and Postal Service

employees need to follow both the new and existing procedures designed to help prevent EMCA revenue losses.

Background

Express Mail, the Service's premium service, was first offered in 1970 and is designed to provide overnight delivery for documents and packages weighing up to 70 pounds, which are to be tracked from the points of acceptance to points of delivery. It is the Service's only guaranteed delivery service, and customers may request and receive a postage refund if an Express Mail package is not delivered on time. As of July 1996, the minimum postage for mailing an Express Mail package was \$10.75.

Overall, Express Mail represents a relatively small portion of the Service's total mail volume and revenue. For fiscal year 1995, the Service reported Express Mail volume of 56 million pieces, which generated revenue of about \$711 million, or about 1 percent of the Service's total mail volume and postage revenue that year.

The Postal Service began offering EMCAS in 1984 to make Express Mail more attractive to customers by giving them a more convenient way to pay postage. Around that time, the Postal Service took other steps as well to retain Express Mail customers. For example, the Postal Service's 1986 annual report to Congress shows that after Express Mail volume dropped by 8.7 percent between fiscal years 1985 and 1986, it ". . . moved aggressively to stop the decline and to make Express Mail service more competitive." According to the 1986 report, the Postal Service implemented an Express Mail morning-delivery program in 30 cities, placed 10,000 Express Mail collection boxes on the streets, and introduced a new Express Mail letter envelope in 1986.

During fiscal year 1995, customers used EMCAS to pay about \$139 million in postage on about 8 million Express Mail packages, or 13 percent and 16 percent of the Service's total Express Mail volume and revenue, respectively. About 90 percent of all EMCA transactions were for domestic Express Mail, and the balance for international Express Mail. In addition to EMCAS, Express Mail customers can pay postage with cash, checks, and postage meters. Recently, the Postal Service has begun making debit and credit cards increasingly available for use by Express Mail customers and other postal customers.

The Service's Vice President for Marketing Systems, under the Senior Vice President for Marketing, has overall responsibility for Express Mail

procedures and management oversight. Employees at post offices and mail-processing plants where Express Mail is accepted from customers and prepared for delivery are responsible for implementing the Service's EMCA policy and procedures.

Related GAO Reports

In recent years, the House Subcommittee on the Postal Service, the U.S. Postal Service, and we have received allegations of fraudulent schemes to evade payment of postage. In addition, we have reported serious weaknesses in some of the Service's revenue systems. In 1993, we reported¹ weak controls over postage meters after allegations of postage meter fraud and a statement by the Postmaster General, which related that revenue losses could total \$100 million annually. More recently, we reported² a lack of adequate procedures for accepting bulk mail, for which the Service recorded revenue of about \$23 billion in 1994. In response to allegations and our reports, the Service took numerous actions to improve its systems of controls over postage meters and bulk mail acceptance. Since that time, we received the allegation that mailers were abusing EMCAS.

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether there is any basis for an allegation regarding EMCA abuse and (2), if so, what steps the Service is taking and could take to help avoid or minimize EMCA revenue losses.

To review alleged EMCA abuse, we interviewed various Service officials at headquarters offices in Washington, D.C., and reviewed Servicewide EMCA policies, procedures, and internal controls for opening EMCAS, verifying EMCA numbers presented by customers, closing EMCAS with negative balances, and recording all required Express Mail data when packages are accepted. To ascertain whether procedures and controls were adequate to protect EMCA revenue and were being followed, we reviewed pertinent Postal Service policies, procedures, and forms for EMCA operations and discussed Express Mail and EMCA practices with Service officials in three customer service districts (Dallas, TX; New York, NY; and Van Nuys, CA). We selected the New York and Van Nuys districts because they were among those having the largest number of EMCA transactions. We selected

¹Postage Meters: Risk of Significant Financial Loss But Controls Are Being Strengthened (GAO/GGD-94-148, May 26, 1994).

²Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses (GAO/GGD-96-126, June 25, 1996).

the Dallas district to provide broader geographic coverage of the Service's EMCA activities.

To help determine if use of EMCAS had resulted in revenue losses, we reviewed, but did not verify, various management reports relating to EMCA activities generated from the Service's Electronic Marketing and Reporting System (EMRS)³. These reports provided data on (1) invalid EMCAS accepted by the Service, (2) EMCAS with negative fund balances, and (3) Express Mail packages delivered by the Service with no acceptance data recorded. For the three selected districts, we gathered data on the dollar amounts of the EMCA negative balances that existed for at least five consecutive accounting periods. We scanned some Express Mail labels in all three districts to determine if the Postal Service accepted Express Mail packages from EMCA customers and did not record any acceptance data. We reviewed data provided by the Service's collection agency on the amount of EMCA-related postage lost due to invalid EMCAS. We reviewed relevant portions of all 19 Postal Inspection Service reports that addressed EMCA activities in various districts, including two of the three selected districts.

To help determine what recent actions, if any, the Service had taken or planned to take relating to EMCAS, we interviewed various headquarters officials responsible for EMCA procedures and controls and for providing employees with equipment that could help to strengthen EMCA-related controls. We also discussed EMCA procedures with officials at the Service's area offices in Dallas, TX and Memphis, TN. At the Memphis office, we inquired about a recently developed EMCA self-audit guide, which was to be used by all districts.

To determine what actions the Service might take to reduce EMCA losses, we interviewed various headquarters officials and reviewed various Service reports showing the purpose to be achieved with EMCAS, Express Mail volumes, and related data after the Service introduced EMCAS. We also interviewed account representatives for two of the Service's principal competitors for overnight delivery—Federal Express and United Parcel Service. We determined if these competitors offered corporate accounts to customers and, if so, what they required for opening an account.

The Postal Service provided written comments on a draft of this report. The Service's comments are summarized and evaluated beginning on page 17 and included in appendix II.

³This system is administered by the Service's Information Systems Service Center in San Mateo, CA.

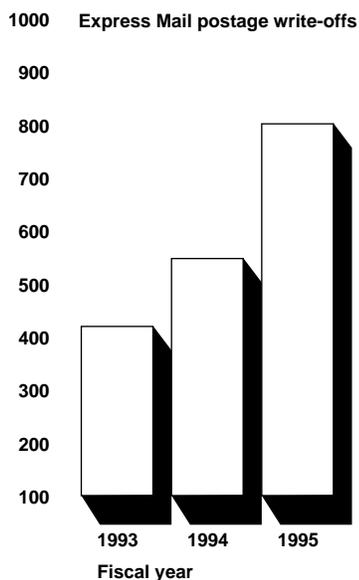
We did our work from November 1995 through April 1996 in accordance with generally accepted government auditing standards.

Revenue Losses From Corporate Accounts Have Grown

EMCA procedures have not adequately protected the Service against postage revenue losses, and EMCA customers have sometimes obtained Express Mail services without valid EMCAS. Postal Service reports showed that the EMCAS were invalid because the EMCA numbers used by customers did not match any of the Service's valid numbers. Also, although EMCAS are to always contain sufficient funds to cover Express Mail postage, EMCA customers sometimes overdrew their accounts and accumulated large negative account balances.

The Service lost increasing sums of Express Mail revenue in the past 3 years because of weak internal controls over EMCAS. Nationwide, the Service referred about \$966,000 in delinquent EMCAS to its collection agency in fiscal year 1995. Of that amount, the Service recovered about \$165,000 (17 percent), and the balance of \$801,000 was written off as uncollectible, almost twice (90 percent increase) the amount written off in 1993, as figure 1 shows.

Figure 1: EMCA Revenue Losses Increased by About 90 Percent Between Fiscal Years 1993 and 1995



Note: The Postal Service did not have data readily available for fiscal years 1993 through 1995 to show whether the volume of EMCA transactions varied significantly over these 3 years. However, the total Express Mail volume varied by less than 10 percent during the 3 years when EMCA write-offs increased by about 90 percent.

Source: Compiled by GAO from the Postal Service's Electronic Marketing and Reporting System reports.

Invalid Corporate Account Numbers Sometimes Used

Postal Service reports show that its employees accepted and delivered some Express Mail packages with invalid EMCA numbers. After delivering the packages, the Service determined that EMCA numbers provided by customers did not match any of the valid EMCA numbers in the Service's automated system. The Service lost revenue and incurred administrative cost to follow up on these customers because it had not determined that their EMCA numbers were invalid before accepting and delivering Express Mail packages.

To help employees detect invalid EMCA numbers before accepting Express Mail, the Service includes, as part of a "Fraud Alert" in a biweekly Postal Bulletin distributed within the Service, a list of EMCA numbers that it has determined to be invalid after some prior EMCA action (e.g., it had previously closed the account). Employees are instructed to not accept Express Mail packages bearing any of the invalid numbers. When the

packages are accepted at a post office or a mail-processing plant, employees are to check EMCA numbers manually against the biweekly list of invalid numbers.

Various Service officials told us that employees accepting Express Mail with EMCA payment do not always use the bulletins to check for invalid EMCAS. Employees at mail-processing plants are expected to move huge volumes of mail in a few hours, and Postal Service officials said that, due to time pressures, most of the EMCA problems occur as a result of improper acceptance of Express Mail at processing plants. A manual process of checking for invalid EMCAS can take a considerable amount of time because of the large quantity of invalid numbers to be scanned for each EMCA package (e.g., the Postal Bulletin dated June 20, 1996, contained about 2,900 invalid 6-digit EMCA numbers listed in numeric order).

Employees accepting Express Mail packages at post offices and mail-processing plants have access to and are to use only the list of invalid EMCA numbers to verify that customers are presenting valid EMCA numbers. Therefore, if a customer made up a number, it likely would not be on the Service's list of invalid EMCAS. Postal employees at post offices and processing plants do not have automated access to valid EMCA numbers—which totaled about 113,000 in February 1996.

The Postal Service incurred administrative costs to collect postage from some EMCA customers using invalid EMCA numbers after the Postal Service delivered Express Mail packages. Each of the three selected districts we visited had 4 to 13 employees responsible for domestic and international Express Mail and Priority Mail activities. Service officials said that all districts have employees with similar responsibilities. District officials told us that these employees receive reports each workday showing EMCA errors that must be investigated so postage can be collected.

These administrative actions can be time consuming and costly because they entail obtaining copies of mailing labels, verifying data, and recording new data when a valid EMCA can be charged. When the EMCA number appears to be invalid, i.e., does not match the Service's records of valid EMCA numbers, the employees must further investigate each case through telephone calls or letters asking for reimbursement and requesting mailers to stop using invalid accounts.

EMCAs Sometimes Overdrawn and Collection Is Difficult

Some customers continued to use EMCAs although they had insufficient funds in their accounts to cover charges for Express Mail services that they received—a problem that the Inspection Service reported over several years.

Under current Service procedures, customers must maintain a minimum EMCA balance of either the customer's estimated Express Mail postage for 1 week or \$50, whichever is higher. However, employees do not have the necessary EMCA data access to verify that this requirement is met before accepting Express Mail packages. Some EMCA customers overdrew their EMCA accounts, and the Postal Service continued to accept Express Mail packages from these customers.

When EMCA customers overdraw their accounts, Postal Service procedures require that employees contact individuals and businesses to collect the postage due. A letter is to be sent to the EMCA customer when the account is deficient for one postal accounting period (28 days). If the account remains deficient after 3 postal accounting periods (84 days), the Service is to close the account and refer it to a collection agency used by the Service.

However, the Service has little information from EMCA applications to use in locating customers and collecting postage. Under current Service procedures, an individual or corporation is to be approved for an EMCA after completing a one-half page application, which shows the applicant's name, address, and telephone number, and depositing the minimum money required in the account. The Service does not require the applicant to present any identification, such as a driver's license or major credit card, to receive an EMCA. Employees approving EMCA applications are not required to verify any information presented on the applications. Thus, an EMCA applicant could provide false or erroneous information on the application and, in these instances, efforts by the Postal Service and its collection agency to locate the customers and collect postage on the basis of information in the EMCA application likely would be unsuccessful.

A Service report on EMCA operations for February 1996 showed that about 97,000 of the approximately 113,000 EMCAs (or 86 percent) had money on deposit with the Service totaling \$18.5 million. However, for the remaining 14 percent, or about 16,000 EMCAs, there was no money on deposit; rather, the accounts were overdrawn by \$4.3 million.

According to the Service's management reports on Express Mail operations, many EMCAS had large negative balances for periods exceeding three accounting periods and were not closed or sent to the collection agency. For example, in the New York district, 16 of the 27 EMCAS we reviewed had negative balances for about 5 consecutive accounting periods (about 140 days). Of these 16 EMCAS, 10 had negative balances of more than \$2,000 each, at the time of our review; and the negative balance for one account was about \$10,000. Similarly, in the Van Nuys district, 10 of the 14 EMCAS we reviewed had negative balances for 5 consecutive accounting periods, and the negative balances for 8 accounts were about \$3,000 each. In the Dallas district, 3 of the 12 EMCAS we reviewed had negative balances for 5 consecutive accounting periods, including 1 EMCA with a \$8,800 negative balance.

The Service's practice of allowing postage to remain unpaid for Express Mail services over long periods of time is inconsistent with the Service policy, which requires that Express Mail must be prepaid or paid at the time of mailing.⁴ Further, allowing customers to overdraw EMCAS and maintain active EMCAS with negative balances for periods exceeding three accounting periods⁵ violates Postal Service procedures.

The Postal Inspection Service has conducted financial audits that included a review of controls over EMCA operations. Postal inspectors in the New York district reported finding overdrawn EMCAS during five audits done since 1987. Some audits revealed that the total negative EMCA balances for the district exceeded \$600,000. The inspectors reported that the Van Nuys district had EMCAS with negative balances at various times since 1988. For example, in 1994, the district had EMCA accounts with negative balances totaling about \$122,000.

As a result of financial audits, the Inspection Service also reported EMCAS with negative balances in many districts that we did not visit. In reports on districts with negative EMCA balances, the Inspection Service recommended that local management take action to eliminate such balances.

⁴U.S. Postal Service's Domestic Mail Manual, Sept. 1, 1995.

⁵A postal accounting period is 4 calendar weeks or 28 days, with 13 accounting periods comprising a postal fiscal year.

Acceptance Data for Some Express Mail Packages Not Recorded

Along with not verifying some EMCAS, Service employees at times did not make any record of accepting Express Mail packages that the Service processed and delivered. In these instances, the necessary information was not available to respond to customer inquiries about the status of packages and process requests for postage refunds when customers claimed that packages were delivered late. Also, in cases where EMCAS were to be charged, the Service lost some revenue because of the lack of acceptance data.

Employees receiving Express Mail packages, whether EMCAS are used or not, are to electronically scan a barcode on the mailing labels to record data for tracking and reporting purposes. When the packages include EMCA numbers, employees are to record those numbers so that the Service can charge postage to the EMCA. Postal Service reports showed that, for the 12-month period ending February 1996, it delivered about 1.9 million domestic Express Mail packages, or 3.4 percent of total domestic Express Mail volume, for which the Service did not record any required acceptance data.⁶

Service officials in the three districts we visited said that recording Express Mail acceptance can be a problem when customers drop packages in collection boxes and employees are expected to record acceptance data when the packages arrive at a mail-processing plant. According to these officials, pressures to keep the mail moving and meet scheduled deadlines can result in some Express Mail being received, sorted, and delivered without proper acceptance.

Service officials at headquarters and in the districts we visited routinely receive exception reports showing that Express Mail was delivered but not properly accepted. They said that generally no attempt is made to correct these errors or collect the postage due in cases where EMCAS are used. Specifically, district officials said that they were instructed by Service headquarters not to take any action in these cases. They also said that they did not have the employees needed to do follow-up, even if it were required.

When the Service failed to record acceptance of Express Mail packages, it did not have data needed to respond to customers' inquiries about the status of Express Mail packages. Because the packages were not logged in,

⁶Although we looked mainly at domestic Express Mail transactions, a similar problem exists for some international Express Mail. For example, according to Postal Service reports, during one postal accounting period, the Dallas district delivered 3,163 international Express Mail packages where required data were not recorded at acceptance points.

the Service had no record to show when packages were received. The Service needs such data to verify whether Express Mail customers' claims for postage refunds on late deliveries are valid. The Service guarantees that Express Mail packages will be delivered on time. In fiscal year 1995, the Service refunded postage to Express Mail customers totaling about \$1.5 million. We did not determine if it had adequate data for determining whether the refund claims were valid. However, if the Service lacks data on when a package was accepted for delivery, it cannot determine whether the package was delivered on time or whether it was delivered late.

Further, the Service regularly reports on-time delivery rates for Express Mail on the basis of the data that are to be recorded when packages are accepted and delivered. When acceptance data are not recorded, the Service has incomplete data to report on-time delivery rates for Express Mail.

The Service lost unknown amounts of revenue because some customers had included EMCA numbers on Express Mail packages, but Service employees did not record any acceptance data. We scanned some Express Mail labels in the three selected districts and noted that all three had received some Express Mail packages from EMCA customers without recording acceptance data. In all three districts, the practice was to not follow up when customers used EMCAs; therefore, no Express Mail acceptance data were recorded. Postal Service officials in the three districts and at headquarters did not know the extent of EMCA revenue losses associated with the failure to record Express Mail acceptance data.

Actions That Could Help Reduce EMCA Revenue Losses

We identified two Postal Service actions under way that could help to improve EMCA controls and thereby reduce related revenue losses and provide needed EMCA data. However, these actions were not fully implemented at the time of our review, and the actions do not address some EMCA control weaknesses that we identified.

Some Actions Were Being Taken

Recognizing the Postal Service's overall vulnerability to revenue losses, in 1994, the Senior Vice President for Finance established a new revenue assurance unit to help collect revenue owed to the Service. The new unit targeted EMCAs as one of five Postal Service operations for improvement. The unit developed strategies, such as self-audits of EMCA activities, to reduce revenue losses resulting from EMCAs. At the time of our review, the

strategies had not yet been fully implemented; and no results from the self-audits, or the unit's other EMCA-related efforts, were available for our review.

In addition to the above action, the Postal Service was installing "point-of-service" terminals at post offices to provide employees with improved access to current postage rates and certain other automated data maintained by the Postal Service.⁷ According to the headquarters manager responsible for the point-of-service terminal project, eventually, the terminals are to provide access to the EMCA database and thus enable employees to verify EMCA numbers and fund balances before accepting Express Mail packages. He said that the date and additional cost to provide this access are yet to be determined.

The Service did not plan to provide the terminals to employees in mail-processing plants who accept Express Mail packages. These employees will still lack access to valid EMCA numbers and current fund balances, and the Service will continue to be vulnerable to revenue losses when customers drop Express Mail packages in collection boxes and include invalid EMCA numbers on the packages.

Planned Actions Do Not Fully Address EMCA Control Weaknesses

Although completion of Service actions discussed above should help to improve controls over EMCAs and reduce related revenue losses, control weaknesses will remain. Taking additional steps to better ensure compliance with existing controls, as well as adding controls, can help to protect revenue. But, the Postal Service will incur cost to strengthen internal controls over EMCAs. Given this and other factors, such as changes that have occurred in the overnight mail delivery market and new methods of providing customer convenience, a reasonable step would be for the Postal Service to first ensure that it wants to retain EMCAs before incurring substantial, additional costs to improve related controls.

The Postal Service introduced EMCAs in 1984 to help stem the decline in the growth of Express Mail business and become more competitive. As we previously reported,⁸ since that time, private carriers have dominated the expedited (overnight) delivery market. We reported that Federal Express

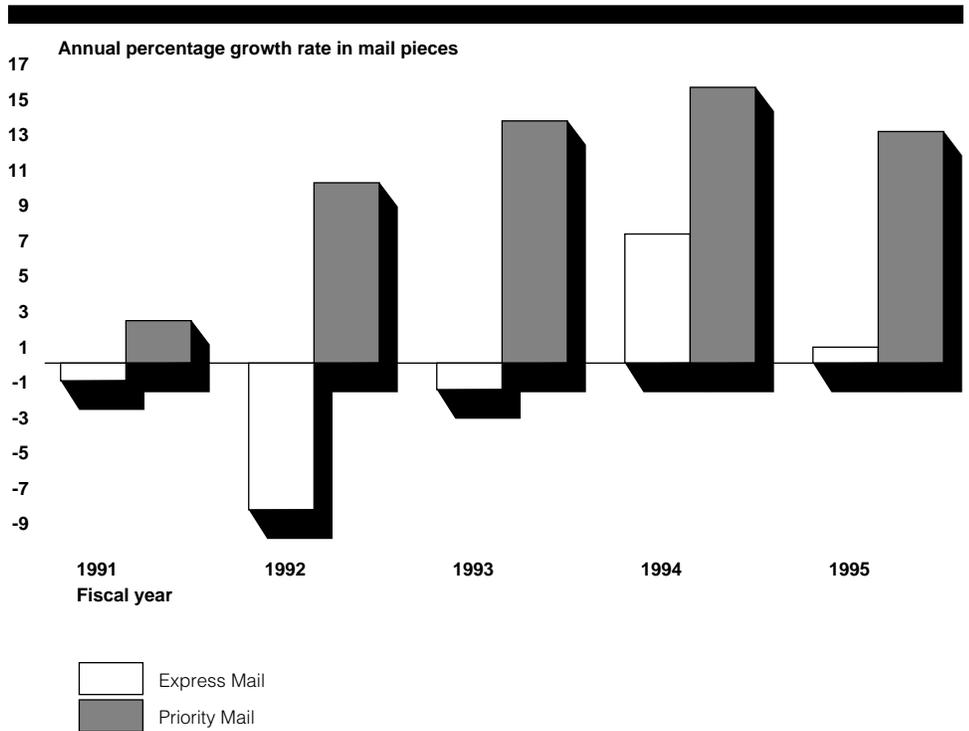
⁷In June 1996, the Postal Service Board of Governors approved funding of \$275 million for the first phase of "point-of-service equipment" acquisition and deployment. According to the Postal Service, the first phase will provide 22,414 terminals at 4,124 retail facilities and cover approximately 36 percent of the retail revenue.

⁸U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

is the acknowledged leader in this market and that the Postal Service's share of the market declined from 100 percent in 1971 to 12 percent in 1990.

Recognizing these market realities, in recent years, the Postal Service has focused marketing efforts more on Priority Mail—which generally is to be delivered in 2 or 3 days—than overnight Express Mail. Priority Mail accounted for almost 6 percent of total revenue in fiscal year 1995, compared with just over 1 percent for Express Mail. Unlike Express Mail, the Postal Service does not offer a corporate account for Priority Mail, and the annual growth rate of Priority Mail pieces outpaced Express Mail growth over each of the past 5 fiscal years. (See figure 2.)

Figure 2: Comparison of Express and Priority Mail Volume Growth Rates, Fiscal Years 1991 Through 1995



Source: U.S. Postal Service's "Revenue, Pieces, Weights" reports for fiscal years 1991 through 1995.

Other factors also suggest that EMCAS may not be the most cost-effective method of offering payment convenience. Specifically, in 1994, the Postal Service began offering customers the use of major debit or credit cards (e.g., MasterCard, Visa, or American Express) to pay for various mail services at post offices.⁹ Customers who want to drop Express Mail packages in collection boxes currently have the option of using postage meters to pay postage.¹⁰

Thus, as one step toward addressing EMCA control problems, the Postal Service could compare the relative customer convenience, administrative cost, and risk of revenue losses of EMCAS with alternative payment methods currently available to Express Mail customers. The Postal Service could also consider competitors' current customer service practices. On the basis of our limited inquiry, we found some of the Postal Service's competitors (i.e., Federal Express and United Parcel Service) offer corporate accounts to customers. For example, Federal Express offers customers a "FedEx" account and requires that applicants have a major credit card to qualify for an account.

If the Postal Service determines that EMCAS are necessary or desirable, we identified two additional steps, beyond those now planned and under way, to help minimize the risk of EMCA abuse and revenue losses as discussed below.

- First, while the self-audits proposed by the revenue assurance unit could help to improve compliance, the audits were just getting started at the time of our review. Express Mail packages can be accepted at about 40,000 post offices and several hundred mail-processing plants, and self-audits covering all of these entities will take some time to complete. Postal Service headquarters responsible for Express Mail operations could reinforce the need for managers and employees to comply with existing internal procedures and controls designed to prevent EMCA abuse. These procedures require employees to (1) record all required data from Express Mail labels, (2) verify EMCA numbers presented by customers against lists of invalid EMCA numbers, and (3) close EMCAS with negative balances running more than three postal accounting periods.

⁹U.S. Postal Service: Proposed Policy to Accept Credit and Debit Credit Cards Makes Sense Conceptually (GAO/GGD-94-154, June 16, 1994).

¹⁰As detailed in our earlier report, Postage Meters: Risk of Significant Financial Loss But Controls Are Being Strengthened (GAO/GGD-94-148, May 26, 1994), the Service has taken numerous actions to improve control over postage meters and reduce postage revenue losses.

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- Second, the Postal Service could improve EMCA internal controls by imposing more stringent requirements for opening EMCAS, such as requiring that individuals present a valid driver's license, a valid major credit card, or other appropriate identification to receive an EMCA. If Postal Service employees approving EMCAS are required to record information from such sources about EMCA applicants, such information could be useful to the Service and its collection agency to locate and collect postage from customers with overdrawn and closed EMCAS.

Conclusions

Internal controls over EMCAS are weak or nonexistent, which has resulted in potential for abuse and increasing revenue losses over the past 3 fiscal years. Establishing adequate control over EMCA operations will require management attention and additional dollar investments.

In light of the control problems we identified, overnight mail market developments since 1984, and the increased availability of other payment methods, EMCAS may not be the most cost-effective method of providing a convenient method for paying Express Mail postage. This question requires further evaluation by the Postal Service of all the relevant factors.

If EMCAS are necessary or desirable, the Postal Service can take steps beyond those planned and under way to help minimize revenue losses and other problems associated with EMCAS. Some employees did not always comply with existing EMCA procedures for checking EMCAS numbers and recording Express Mail data. Although acceptance employees are under pressure to move the mail and some have side stepped some required tasks, management could emphasize to these employees the importance of following EMCA procedures and collecting the postage due when the Postal Service delivers mail. Further, the Postal Service violated its procedures by allowing customers to overdraw EMCAS and continue using them for up to 5 months. Currently, few requirements exist for customers to obtain EMCAS; and more stringent requirements for opening EMCAS, similar to those used by the Service's competitors, might also help to avoid Express Mail revenue losses.

Recommendations

To help reduce EMCA revenue losses and other related problems discussed in this report, we recommend that the Postmaster General require Service executives to determine if EMCAS are the most cost-effective method for achieving the purpose for which they were intended, in light of all relevant factors.

If EMCAS are determined to be a necessary or desirable method, we recommend that the Service (1) establish stronger requirements for opening EMCAS and (2) hold managers and employees accountable for handling EMCA transactions in accordance with the new requirements as well as existing Service policies and procedures for verifying EMCA numbers, closing EMCAS with negative balances, and recording required data for all Express Mail packages accepted.

Postal Service Comments and Our Evaluation

In a September 9, 1996, letter, the Postmaster General said that the Postal Service agreed with our overall findings and conclusions. He said that the Service was moving forward with initiatives to cut down on revenue losses from invalid EMCAS. In addition to the two actions discussed previously in our report, he said that the Service will take the following actions to address our recommendations:

- Establish more stringent requirements for opening and using EMCAS. These requirements will include a \$250 deposit (in lieu of a \$100 deposit now required) to open an account and weekly reviews at acceptance units of EMCA use to ensure that minimum balance requirements are met. Area and district managers will focus more consistent attention on ensuring that acceptance units follow EMCA procedures.
- Examine the feasibility and cost of installing terminals at mail-processing plants in addition to the terminals being installed at many post offices to check instantly whether EMCAS are valid and contain sufficient funds for Express Mail postage.
- Evaluate whether continuing to offer EMCAS as a payment option still makes good business sense.

The Service expects these corrective actions to go a long way toward minimizing the use of invalid EMCAS and revenue losses.

We agree that, when the Service has fully implemented the actions taken and planned, controls over EMCA are likely to be significantly improved. The Service will need to coordinate these EMCA improvement actions with its evaluation to determine whether to continue offering EMCAS. Otherwise, it could incur unnecessary cost of improving controls over EMCAS if later it determines that EMCAS do not make good business sense and should be discontinued.

We are sending copies of this report to the Postmaster General, the Postal Service Board of Governors, the Ranking Minority Member of your Subcommittee, the Chairman and Ranking Minority Member of the Senate Oversight Committee for the Postal Service, and other congressional committees that have responsibilities for Postal Service issues. Copies will also be made available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions about this report, please call me on (202) 512-8387.

Sincerely yours,

A handwritten signature in black ink, reading "J. William Gadsby". The signature is written in a cursive style with a large, stylized initial "J" and "G".

J. William Gadsby
Director, Government Business
Operations Issues

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Abbreviations

EMCA	Express Mail Corporate Account
EMRS	Electronic Marketing Reporting System

Description of the Postal Service's Express Mail Corporate Account Procedures

EMCAs are available to both individual and business customers. Under current Service procedures, anyone can open an EMCA by depositing \$100 or the customer's estimated 2-weeks Express Mail postage, whichever is higher. EMCA customers are required to maintain a minimum balance of \$50 or 1-week Express Mail postage, whichever is higher, on deposit with the Service. Although Service officials said that the number of active EMCA varies daily, Service records show that, during the month of February 1996, an average of about 113,000 EMCAs existed nationwide.

When opening EMCAs, customers are to be given a six-digit EMCA number, and these numbers are to be included on mailing labels affixed to the Express Mail packages. Customers can drop the package in a collection box designated for Express Mail or take the package to a post office, mail-processing plant, or other places where the Service accepts Express Mail.

Postmasters, clerks, or other Service employees accepting Express Mail at post offices and mail-processing plants are to electronically scan a preprinted barcode on the Express Mail label, which enters the label's unique identifying number into an automated system for tracking purposes. The employees are to weigh the package, verify that the customer calculated the correct postage, and take steps as required to ensure the correct postage is collected. These steps are to be done for all Express Mail, whether an EMCA is used for payment or not.

For those Express Mail packages involving an EMCA, employees accepting the package are to determine if the EMCA number on the package is invalid by manually comparing the number against a list of EMCA numbers that the Service has determined to be invalid. If the number on the package is not found on that list, employees are to manually key in the EMCA number and the postage due so that the amount can be charged to the EMCA. An EMCA is to be charged for the Express Mail package when employees record a valid EMCA number at the acceptance point and scan the Express Mail barcode. A sample Express Mail label follows, showing EMCA numbers and other data to be recorded by employees when they accept a package.

**Appendix I
Description of the Postal Service's Express
Mail Corporate Account Procedures**

Sample Express Mail Label

 EXPRESS MAIL <small>UNITED STATES POSTAL SERVICE™</small>			<h2>POST OFFICE TO ADDRESSEE</h2>		
ORIGIN (POSTAL USE ONLY)			DELIVERY (POSTAL USE ONLY)		
PO Zip Code	Date of Delivery <input type="checkbox"/> Next <input type="checkbox"/> Second	Flat Rate Envelope <input type="checkbox"/>	Delivery Attempt Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM	Employee Signature
Date In Mo. Day Year	<input type="checkbox"/> 12 Noon <input type="checkbox"/> 3 PM	Postage \$	Delivery Attempt Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM	Employee Signature
Time In <input type="checkbox"/> AM <input type="checkbox"/> PM	Military <input type="checkbox"/> 2nd Day <input type="checkbox"/> 3rd Day	Return Receipt	Date of Delivery Mo. Day	Time <input type="checkbox"/> AM <input type="checkbox"/> PM	Employee Signature
Weight lbs ozs	Int'l Alpha Country Code	C.O.D.	Signature of Addressee or Agent		
No Delivery <input type="checkbox"/> Weekend <input type="checkbox"/> Holiday	Acceptance Clerk Initials	Total Postage & Fees \$	X Name - Please Print X		
CUSTOMER USE ONLY					
METHOD OF PAYMENT: Express Mail Corporate Acct. No. A		<input type="checkbox"/> WAIVER OF SIGNATURE (Domestic Only): I wish delivery to be made without obtaining signature of addressee or the addressee's agent (if delivery employee judges that article can be left in a secure location) and I authorize that delivery employee's signature constitutes valid proof of delivery.			
Federal Agency Acct. No. or Postal Service Acct. No.		NO DELIVERY <input type="checkbox"/> Weekend <input type="checkbox"/> Holiday _____ Customer Signature			
FROM: (PLEASE PRINT) PHONE _____ ⌈ _____ ⌋ L _____ J			TO: (PLEASE PRINT) PHONE _____ ⌈ _____ ⌋ L _____ J		
PRESS HARD. You are making 3 copies. FOR PICKUP OR TRACKING CALL 1-800-222-1811 					

Mailing Label
 *

 *

Label 11-B October 1995

- A** Postal Service employees are to manually record an Express Mail Corporate Account number supplied by the customer in this block.
- B** Employees are to scan a barcode pre-printed by the Service on each Express Mail label.

Source: U.S. Postal Service.

Appendix I
Description of the Postal Service's Express
Mail Corporate Account Procedures

After acceptance is recorded, the Service is to track each Express Mail package until it reaches the delivery station near the home or business receiving the package. At these stations, Service employees are to again electronically scan the barcode on the Express Mail label before the package is delivered.

The Service has an Electronic Marketing and Reporting System (EMRS)¹¹ to record, track, and report on Express Mail transactions. The system is used to receive and compare the Express Mail identification numbers scanned by postal employees at the post offices or mail-processing plants and delivery stations. If the comparisons show no match between the scanned barcodes entered at the points of acceptance and delivery, exception reports are to be prepared and made available to Service officials each workday for follow-up action. EMRS also generates reports showing (1) pieces of mail charged to invalid EMCAS; (2) Express Mail packages scanned at either the acceptance point or the delivery point, but not both; and (3) EMCAS with insufficient or negative fund balances.

Along with these exception reports, the system generates other reports every 4 weeks for use by Service officials and, in some cases, EMCA customers. Among these reports are those that show Express Mail volume and revenue, on-time delivery rates, and refunds of postage for late delivery. Service officials and each EMCA customer are to receive a report every 4 weeks showing the beginning EMCA balance, number of packages mailed, amount of postage charged during the preceding 4-week period, ending and minimum balances, and any additional deposit required by the customer.

¹¹This system is administered by the Service's Information Systems Service Center in San Mateo, CA.

Comments From the U.S. Postal Service



September 9, 1996

Mr. J. William Gadsby
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for the opportunity to review and comment on the draft report entitled, U.S. Postal Service: Revenue Losses From Express Mail Accounts Have Grown.

We agree with the report's overall findings and conclusions. Recent reviews conducted by our Postal Inspection Service and Finance staff have brought to management's attention many of the same shortcomings and operational deficiencies that are detailed in your report.

As mentioned in the report, we are already moving forward with several initiatives that will significantly cut down on the amount of revenue we lose when customers use invalid Express Mail Corporate Accounts (EMCAs). We will be setting up more stringent requirements for customers to open and use EMCAs. A larger initial deposit (\$250) will be required to open an account and customers will be required to maintain a minimum balance in their accounts equivalent to two weeks' average use. EMCA use will be reviewed weekly at the local acceptance unit level and managers will notify customers with negative or below-minimum balances to bring their accounts up to the required minimum.

As we mentioned in our comments on the report earlier this year on bulk mail acceptance operations, we are increasing management attention at all levels to ensure that we collect all the revenue we are owed. This emphasis includes increased oversight for EMCAs. We have issued a self-evaluation checklist that is already helping local managers oversee and control the use of EMCAs. In addition, area and district managers will be focusing more consistent attention on ensuring that all current and forthcoming EMCA procedures are followed by their acceptance units.

The new retail point-of-service terminals that we are installing in post offices nationwide will be able to determine whether a particular EMCA is valid and to check instantly whether there is sufficient postage in the account. We are looking into the feasibility and costs of installing in mail processing plants terminals that can access the EMCA databases so employees accepting and processing Express Mail pieces there can verify that EMCAs being used are valid.

Appendix II
Comments From the U.S. Postal Service

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Concerning the recommendation that we determine "if EMCAs are the most cost-effective method" for paying Express Mail postage, we will evaluate whether continuing to offer EMCAs as a payment option still makes good business sense.

We expect that these corrective actions will go a long way toward minimizing the use of invalid EMCAs and the resulting revenue losses.

If you wish to discuss any of these comments, my staff is available at your convenience.

Best regards,

A handwritten signature in black ink, appearing to read "Mark L. ...". The signature is written in a cursive style with a long horizontal stroke at the end.

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